



**STATE OF DELAWARE
THE PUBLIC SERVICE COMMISSION**

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April 29, 2014

TO: The Chair and Members of the Commission

FROM: Pamela Knotts, Regulatory Policy Administrator

SUBJECT: IN THE MATTER OF THE PROVISION OF STANDARD OFFER SUPPLY TO
RETAIL CONSUMERS IN THE SERVICE TERRITORY OF DELMARVA
POWER & LIGHT COMPANY (FILED APRIL 1, 2014) –
PSC Docket No. 14-144

Application

On April 1, 2014, Delmarva Power & Light Company (“DPL” or the “Company”) filed with the Commission revised electric tariffs reflecting new Standard Offer Service (“SOS”) rates, its new Procurement Cost Adjustment (the “PCA”),¹ its Reasonable Allowance for Retail Margin (“RARM”),² and its Renewable Energy Portfolio Standard Charge (“RPS Charge”) with usage on and after the effective date of June 1, 2014 (the “SOS-PCA-RARM-RPS Filing”). According to the Company’s calculations, not including the Qualified Fuel Cell Provider Project (“Bloom”) or RPS Charge, the monthly bill for a residential customer using 1,000 kWh on an annual average basis will be increased by approximately \$0.32³ (or an increase of 0.2%).

¹ The PCA is a component of the “Full Requirements Cost” portion of both “fixed” and “hourly” priced SOS rates. It is designed to collect, or return, over the subsequent rate year any past period differences between the amounts billed to customers for fixed-price SOS (FP-SOS) and Hourly Priced services (HPS) and the amounts DPL actually paid to wholesale suppliers and PJM Interconnection to provide such full requirements for FP-SOS and HPS. The PCA is calculated by customer class, and any differences are also subject to an interest charge.

² When the Commission approved the settlement agreement in PSC Docket No. 04-391, the “Electric Utility Restructuring Act of 1999” directed Delmarva Power to include in its SOS rates a “reasonable allowance for retail margin to be determined by the Commission.” See 26 *Del. C.* §1006(a)(2)(c), prior to 2006 amendments. With the “Electric Utility Supply Act of 2006” (i.e., House Bill No. 6), the General Assembly rewrote §1006 and, among other things, deleted the reference to “reasonable allowance for retail margin (“RARM”). While there is no longer any specific statutory requirement for SOS to include a RARM, the new §1007(c)(1)a. from the Supply Act of 2006 cites the SOS “procurement process approved in PSC Docket No. 04-391” as comprising a portion of the SOS resource mix, which process includes collection of the RARM at this time.

³This does not include the Qualified Fuel Cell Provider Monthly Charge (QFCP-RC) or the RPS Charge/Credit.

The Company's 2014 SOS-PCA-RARM-RPS Filing included Electric Tariff Leaf Nos. 39-41; 43-47; 50; 112; and 114 in proposed as well as red-lined (legislative) format. The Company also submitted work papers which supported the composite rates and bill impact information.

Additionally, the Settlement Agreement approved by the Commission in PSC Docket No. 09-9⁴ ("RARM Settlement") provides that where the change in the total RARM rate exceeds 5.25%, the Company is required to submit a formal filing for review. According to the Company's filing, the RARM rate for fixed price customers decreased by 5.30% from the RARM rate currently in effect. Therefore, the Company considers the RARM component to be a formal filing, and the RARM factor will decrease. The Company included work papers supporting the results of the RARM factor on an actual basis for the reporting year ending December 31, 2013, and estimated basis for rate period. Thus, the RARM component will be subject to formal discovery.

The 2014 SOS-PCA-RARM-RPS Filing also includes recovery of certain franchise and State utility taxes that DPL is required to collect from customers and transfer to State and local taxing authorities. For a three-year period, beginning June 1, 2007, and ending May 31, 2010, DPL paid those taxes but failed to collect the amounts that it paid to taxing authorities in SOS rates (the "Uncollected Amounts"). According to the Settlement Agreement in Docket No. 11-528 dated August 28, 2012, the total amount to be collected over a three-SOS year period, beginning June 1, 2012, is \$3,346,205 ("\$3.4 million"). Thus, each year there will be a true-up for the Uncollected Amounts. The total Uncollected Amount, however, will not exceed the \$3.4 million. The Uncollected Amounts claimed by the Company is still subject to Staff review.

Lastly, the Company's 2014 SOS-PCA-RARM-RPS Filing includes implementation of the RPS Charge.⁵ This charge consists of (1) the cost to acquire renewable energy credits ("RECs"), solar renewable energy credits ("SRECs"), and their equivalents necessary to comply with the Delaware Renewable Energy Portfolio Standards Act ("RPS"); (2) the cost and/or benefit of the energy from contracts for renewable energy entered into by the Company with the approval of the Commission; and (3) the adjustment of the Qualified Fuel Cell Provider Project (Bloom) on the RPS obligations. The imputed RPS Charge is \$0.003448/kWh for all service classifications.

Background

In October 2005, the Commission approved a Request for Proposal ("RFP") process for the Company to procure supply from the wholesale electric market for resale to its SOS customers in accordance with the Electric Utility Restructuring Act of 1999 (the "Act").⁶ In April 2006, the General Assembly revised certain SOS provisions in the Act, but carried forward the RFP process established in this docket as the means to procure at least 30% of the Company's overall SOS load.⁷ After each of the first two SOS procurement years, the Commission reopened this docket

⁴ See PSC Order No. 7703 (December 22, 2009).

⁵ This term is defined above in the first paragraph.

⁶ See PSC Order No. 6746 (October 11, 2005).

⁷ See 26 *Del. C.* §1007(c)(1)a, added by the "Electric Utility Retail Customer Supply Act of 2006," 75 Del. Laws ch. 242 (Apr. 6, 2006).

and made certain changes to the procurement process as well as to the framework for public disclosure of the results.⁸

On October 7, 2008, pursuant to 26 *Del. C.* §1007(c)(1) and the Commission's jurisdiction in this docket, the Commission issued Order No. 7461, which approved the Company's request to utilize in its annual SOS procurement process a reverse auction process conducted by World Energy Solutions Inc. ("World Energy").

On December 2, 2013, and February 3, 2014, DPL conducted its ninth annual SOS procurement for supply contracts commencing on June 1, 2014. The procurement, which was conducted in two "tranches," secured three-year supply contracts for one-third of the residential SOS load and one-year contracts for 100% of the load for other "fixed price" types of service. Liberty Consulting Group, Inc. ("Liberty"), along with Staff, observed and evaluated the supply procurement in each tranche.

At the Commission's March 4, 2014 meeting, Liberty presented its Final Report dated March 4, 2014, which discussed the details of each procurement and the successful bids for the 2013-2014 SOS RFP. The Company's 2014 SOS-PCA-RARM-RPS Filing reflects the results of the successful bids, as well as the PCA, RARM, and the RPS. As discussed in its report, Liberty found that the auction resulted in bids that were consistent with expectations based on market conditions.⁹

Analysis

Staff has just begun reviewing, and will be issuing discovery on, the Company's 2014 SOS-PCA-RARM-RPS Filing. Staff will review the data supporting the composite rates to determine whether the proposed tariff changes reflect:

- Compliance with previous Commission orders;
- The most recent bidding results reflected in the Final Report from Liberty dated March 4, 2014;
- RPS compliance costs; and
- Total supply costs for which the Company requested recovery.

Staff notes the following observations from its initial review of the 2014 SOS-PCA-RARM-RPS Filing. First, all residential customers will receive a slight increase on their total bill on an annual average monthly basis. The 2013-2014 Residential and Small Commercial and Industrial Fixed Price ("RSCI") bid makes up approximately one-third of the supply costs for the RSCI customers. The PCA and RARM are also components of the supply costs.

⁸See PSC Order Nos. 7053 (Oct. 17, 2006) and 7284 (Sept. 18, 2007).

⁹ See "Technical Consultant's Final Report - To the Delaware Public Service Commission - Delmarva Power & Light 2013-2014 Request for Proposals for Full Requirements Wholesale Electric Supply for Standard Offer Service" dated March 4, 2014.

Second, as part of the implementation of the RPS Charge, all customers who entered into a Transitional Retail Contract¹⁰ prior to March 1, 2012, with Retail Electric Suppliers¹¹ that included the cost of RPS compliance will be given a Renewable Portfolio Standard Credit¹² (“RPS Credit”) of \$0.004246/kWh¹³ which will be applied to the Delivery Service Charges.¹⁴ The RPS Credit, in effect, prevents such customers from incurring the cost of the RPS Charge twice: Once in the RPS Charge, and a second time through the Retail Electric Supplier’s Supply Service Charge, which also includes this RPS compliance cost.

Interested persons may comment upon or object to the proposed changes while Staff continues its review of the Company’s 2014 SOS-PCA-RARM-RPS Filing before the Commission makes a final determination.

Staff Recommendation

Staff respectfully recommends that the Commission:

1. Accept the Final Report from Liberty dated March 4, 2014;
2. Allow the proposed tariffs in the Company’s 2014 SOS-PCA-RARM-RPS Filing dated April 1, 2014, to go into effect with usage on or after June 1, 2014, on a temporary basis, subject to refund, with appropriate public notice, and with an interest rate that is consistent with 26 *Del. Admin. C.* §1003 (Interest on Commission Ordered Rate Refunds).
3. Require the Company to publish notice of this 2014 SOS-PCA-RARM-RPS Filing in two Delaware newspapers of general circulation as set forth in the opening order for this docket.

¹⁰ Defined in 26 *Del. Admin. C.* §3008-3.2.3.1.

¹¹ Defined in 26 *Del. C.* §352(22).

¹² See 26 *Del. Admin. C.* §3008-3.2.3.2.3

¹³ The Renewable Portfolio Standard Credit includes the procurement of RECs and SRECs and a Qualified Fuel Cell Provider adjustment.

¹⁴ See Delmarva Power & Light Company’s Electric Tariff, P.S.C. Del. 8 – Electric, Second Revised Leaf No. 4.